

**Rule 136. LIMITED LIABILITY COMPANIES AS QUALIFYING ORGANIZATIONS FOR THE WELFARE EXEMPTION**

Authority Cited: Section 15606(c), Government Code.

Reference: Sections 214, 214.01, 214.8, 254.5, and 254.6, Revenue and Taxation Code.

**(a)** A limited liability company may be a qualifying entity for welfare exemption purposes, if it is wholly owned by a qualifying organization or organizations and if it meets specific organizational and operating requirements.

**(b)(1) QUALIFYING ORGANIZATION.** A qualifying organization is an organization that is exempt under section 501(c)(3) of the Internal Revenue Code or under section 23701d of the Revenue and Taxation Code and that qualifies for exemption under section 214 of the Revenue and Taxation Code. A limited liability company is a qualifying organization if all its owner organization(s) (referred to as members) are exempt under section 501(c)(3) of the Internal Revenue Code or under section 23701d of the Revenue and Taxation Code and qualify for exemption under section 214 of the Revenue and Taxation Code. Each member shall have a valid, unrevoked letter from the Internal Revenue Service or the Franchise Tax Board, stating that it qualifies as an exempt organization under section 501(c)(3) of the Internal Revenue Code or under section 23701d of the Revenue and Taxation Code.

**(b)(2) QUALIFYING ORGANIZATION.** A qualifying organization is also a government entity that is exempt from property taxation under section 3 of Article XIII of the California Constitution, as to property owned by the state under subdivision (a), or as to property owned by a local government under subdivision (b), or as to property used exclusively for public schools, community colleges, state colleges and state universities under subdivision (d). A limited liability company is a qualifying organization if one or more of its members is a government entity, as specified, and all other members are exempt under section 501(c)(3) of the Internal Revenue Code or under section 23701d of the Revenue and Taxation Code and qualify for exemption under section 214 of the Revenue and Taxation Code.

**(c) ORGANIZATIONAL REQUIREMENTS.** A limited liability company wholly owned by qualifying organization(s) may satisfy the organizational requirements for purposes of the exemption, if its articles of organization or the equivalent legally recognized formative document under the laws of the jurisdiction where the entity is formed meets all of the following requirements:

(1) A specific statement shall be included which limits the activities of the limited liability company to one or more exempt purposes, as specified in section 214. This requirement may be satisfied by a clause stating that the limited liability company is organized and operated exclusively for one or more exempt purpose(s) as specified in section 214 (religious, hospital, scientific or charitable).

(2) The organizational language shall specify that the limited liability company is operated exclusively to further the exempt purpose(s) as specified in section 214, of its member(s).

(3) The organizational language shall require that each member of the limited liability company be a qualifying organization, as specified in subsections (b)(1) or (b)(2) of this rule.

(4) The organizational language shall prohibit any direct or indirect transfer of any membership interest in the limited liability company to any nonqualified person or entity.

(5) The organizational language shall provide an acceptable dedication clause. This requirement may be satisfied by a clause that irrevocably dedicates the property to one or more of the exempt purposes, as specified in sections 214 and 214.01.

(6) The organizational language shall provide an acceptable dissolution clause. This requirement may be satisfied by a clause, which specifies that upon dissolution, all assets shall be distributed to an organization(s) organized and operated exclusively for exempt purposes, as specified in section 214, and which has established its tax exempt status under section 501(c)(3) of the Internal Revenue Code, or under section 23701d of the Revenue and Taxation Code.

(7) The organizational language shall require that any amendments to the limited liability company's articles of organization or the equivalent legally recognized formative document under the laws of the jurisdiction where the entity is formed and to the operating agreement, be consistent with section 214.

(8) The organizational language shall prohibit the limited liability company from merging with, or converting into, a for-profit entity.

(9) The organizational language shall require that the limited liability company not distribute any assets to members who cease to be organizations described in section 214.

**(d)** The limited liability company shall represent that its articles of organization are consistent with state law governing limited liability companies and are enforceable at law and in equity.

**(e) OPERATING REQUIREMENTS.** A limited liability company wholly owned by qualifying organization(s) may satisfy the operational requirements for purposes of this exemption, by operating in accordance with its articles of organization or the equivalent legally recognized formative document under the laws of the jurisdiction where the entity is formed.

**(f)** The limited liability company shall file with the Board a copy of certified Articles of Organization or the equivalent legally recognized formative document required under the laws of the jurisdiction where the entity is formed, and any certified amendments and restatements.

**(g)** In the event that a member of the limited liability company ceases to be a qualifying welfare organization, as described in section 214, the limited liability company shall report this information to the assessor and the Board no later than the next annual filing deadline for the welfare exemption. Such event will serve to disqualify the limited liability company and its property from the welfare exemption.

History: Adopted June 30, 2004, effective January 1, 2005.

#### **Rule 140. WELFARE EXEMPTION REQUIREMENTS FOR LOW-INCOME HOUSING PROPERTIES**

Authority Cited: Section 15606, Government Code.

Reference: Section 214, Revenue and Taxation Code.

**(a) DEFINITIONS.** The definitions set forth in this regulation shall govern the construction of Revenue and Taxation Code section 214, subdivision (g):

(1) "Low-income housing tax credits" means that the property owner is eligible for and receives state low-income housing tax credits pursuant to Revenue and Taxation Code sections 12205, 12206, 17057.5, 17058, 23610.4 and 23610.5 or federal low-income housing tax credits pursuant to section 42 of the Internal Revenue Code.

(2) "Government financing" means financing or financial assistance from local, state or federal government used for the acquisition, rehabilitation, construction, development, or operation of a low-income housing property in the form of: (1) tax-exempt mortgage revenue bonds; (2) general obligation bonds; (3) local, state or federal loans; (4) local, state or federal grants; (5) any loan insured, held, or guaranteed by the federal government; or (6) project-based federal funding under section 8 of the Housing Act of 1937. The term "government financing" does not include properties that solely receive federal rental assistance through tenant rent-subsidy vouchers under section 8 of the Housing Act of 1937.

(3) "Other legal document" means a document that is adopted as a resolution or statement of policy by an organization's board of directors, or executed by an organization's chief executive officer, provided that the board of directors has delegated this authority in writing to the chief executive officer, that restricts the property's use to low-income housing, such that a minimum of 90% of the units of the property are made continuously available to or occupied by lower income households at rent levels that do not exceed those prescribed by section 50053 of the Health and Safety Code.

(4) "Lower income households" means "lower income households" as defined by section 50079.5 of the Health and Safety Code.

(5) "Recorded deed restriction" means a deed recorded as an encumbrance against title to the property in the official records of the county in which the property is located, which specifies that

all or a portion of the property's usage is restricted to rental to lower income households and identifies the number of units restricted to use as low-income housing.

(6) "Regulatory agreement" means an enforceable and verifiable agreement with a government agency that has provided low-income housing tax credits or government financing for the acquisition, rehabilitation, construction, development or operation of a low-income housing property that restricts all or a portion of the property's usage for rental to lower income households. The regulatory agreement shall identify the number of units restricted for use as low-income housing, specify the maximum rent allowed for those units, and be recorded in the county in which the property is located. Until such time as the Regulatory Agreement is finalized and recorded, the Preliminary Reservation Letter from the California Tax Credit Allocation Committee or California Debt Limit Allocation Committee Bond Cap Allocation Letter is acceptable.

**(b) QUALIFIED CLAIMANTS.** Claimants may qualify for the welfare exemption for low-income housing properties provided that the requirements set forth in either (1) or (2) below are met:

(1) All claimants listed under Revenue and Taxation Code section 214, subdivision (g)(1) as a qualifying organization, including limited partnerships in which the managing general partner is an eligible nonprofit corporation or an eligible limited liability company, may qualify for the exemption for a particular property provided that:

(A) the claimant receives low-income housing tax credits or government financing for the particular property; and

(B) the property is subject to a recorded deed restriction or a regulatory agreement which is recorded in the county in which the property is located.

(2) All low-income housing properties, subject to restrictions imposed by an other legal document, defined in subdivision (a)(3) above, owned by claimants listed under Revenue and Taxation Code section 214, subdivision (g)(1) as a qualifying organization, other than limited partnerships in which the managing general partner is an eligible nonprofit corporation or an eligible limited liability company, qualify for the welfare exemption but the amount of the exemption shall not exceed \$20,000 in tax for a single claimant with respect to a single or multiple properties as provided in Revenue and Taxation Code section 214, subdivision (g)(1)(C).

**(c) LOW-INCOME HOUSING TAX CREDITS AND GOVERNMENT FINANCING.** For purposes of subdivision (b)(1)(A) above, a property has low-income housing tax credits or government financing, as defined in subdivisions (a)(1) and (a)(2), respectively, for the period of time that a regulatory agreement or recorded deed restriction restricts the use of all or any portion of the property for rental to lower income households even if the government financing has been refinanced or has been paid in full, or the allocation of the low-income housing tax credits has terminated or expired, provided that the government agency that is a party to the regulatory agreement continues to monitor and enforce compliance with the terms of the regulatory agreement.

**(d) PERCENTAGE OF UNITS AND RENT.**

(1) For claims qualifying under subdivision (b)(1) above, an exemption shall be granted equal to that percentage of the value of the property, which is made continuously available for rental to or occupied by lower income households at rents that do not exceed those prescribed by section 50053 of the Health and Safety Code, or, to the extent that the terms of the regulatory agreement or recorded deed restriction conflict with section 50053, rents do not exceed those prescribed by such terms.

(2) The percentage of the value of the property qualifying for the exemption is based on the actual use of the property for rental to lower income households for the qualifying rent, and is not limited to the percentage designated for use by lower income households in the regulatory agreement, recorded deed restriction, or other legal document. Units reserved for the resident property manager are included in the percentage of units that qualify for the exemption.

History: Adopted March 28, 2006, effective July 23, 2006.

**Rule 140.1. REQUIREMENTS FOR MANAGING GENERAL PARTNER OF LIMITED PARTNERSHIP FOR WELFARE EXEMPTION FOR LOW-INCOME HOUSING PROPERTIES**

Authority Cited: Section 15606, Government Code.  
Reference: Section 214, Revenue and Taxation Code.

**(a) DEFINITIONS.** The definitions set forth in this regulation shall govern the construction of Revenue and Taxation Code section 214, subdivision (g), which provides the requirements for the welfare exemption for low-income housing properties owned by a limited partnership in which the managing general partner is an eligible nonprofit corporation or eligible limited liability company.

(1) "General partner" means "general partner" as defined by section 15611, subdivision (n) of the Corporations Code.

(2) "Limited partner" means "limited partner" as defined by section 15611, subdivision (q) of the Corporations Code.

(3) "Limited partnership" means a "limited partnership" as defined by section 15611, subdivision (r) of the Corporations Code, or a "foreign limited partnership" as defined by section 15611, subdivision (l) of the Corporations Code.

(4) "Limited partnership agreement" means any valid written agreement of the partners as to the affairs of a limited partnership and the conduct of its business, including all amendments thereto.

(5) "Majority in interest of the general partners" means more than 50 percent of the interests of the general partners, and does not include the interests of any of the limited partners, in the current profits derived from business operations of the limited partnership.

(6) "Managing general partner" means a general partner that:

(A) is a nonprofit corporation, or an eligible limited liability company meeting the requirements of Revenue and Taxation Code section 214, designated in the limited partnership agreement as the "managing general partner" of the limited partnership;

(B) is authorized to receive a partnership management fee, or similar form of compensation, payable in the amount and the manner set forth in the limited partnership agreement or other agreement executed by all of the general partners for performing its duties;

(C) has "material participation," as defined in subdivision (a)(7) below, in the control, management, and direction of the limited partnership's business; and

(D) the officers and directors of the for-profit general partners, for-profit limited partners, or any of its for-profit affiliates, do not, as individuals or collectively, have a controlling vote or majority interest in the nonprofit managing general partner.

(7) "Material participation" means that the limited partnership agreement or other agreement executed by all of the general partners expressly provides that the managing general partner:

(A) has a right to vote in all the "major decisions," defined in subdivision (a)(8) below;

(B) performs "substantial management duties," defined in subdivision (a)(10) below;

(C) directly, or indirectly under its supervision, manages the limited partnership;

(D) annually conducts a physical inspection of the low-income housing property to ensure that the property is being used as low-income housing and meets all of the requirements set forth in Regulation 140; and

(E) annually submits a certification to the county assessor for the county in which the property is located that the low-income housing property meets all of the requirements set forth in Regulation 140.

(8) "Major decisions" means those acts, if any, that require a vote of a majority in interest of the general partners.

(9) "Partner" means a limited or general partner.

(10) "Substantial management duties" means that the managing general partner actually performs five or more of the following partnership management duties on behalf of the limited partnership:

(A) rents, maintains and repairs the low-income housing property, or if such duties are delegated to a property management agent, participates in hiring and overseeing the work of the property management agent;

(B) participates in hiring and overseeing the work of all persons necessary to provide services for the management and operation of the limited partnership business;

(C) executes and enforces all contracts executed by the limited partnership;

(D) executes and delivers all partnership documents on behalf of the limited partnership;

(E) prepares or causes to be prepared all reports to be provided to the partners or lenders on a monthly, quarterly, or annual basis consistent with the requirements of the limited partnership agreement;

(F) coordinates all present and future development, construction, or rehabilitation of low-income housing property that is the subject of the limited partnership agreement;

(G) monitors compliance with all government regulations and files or supervises the filing of all required documents with government agencies;

(H) acquires, holds, assigns or disposes of property or any interest in property;

(I) borrows money on behalf of the limited partnership, encumbers limited partnership assets, places title in the name of a nominee to obtain financing, prepays in whole or in part, refinances, increases, modifies or extends any obligation;

(J) pays organizational expenses incurred in the creation of the partnership and all operational expenses;

(K) determines the amount and timing of distributions to partners and establishes and maintains all required reserves; and

(L) ensures that charitable services or benefits, such as vocational training, educational programs, childcare and after-school programs, cultural activities, family counseling, transportation, meals, and linkages to health and/or social services are provided or information regarding charitable services or benefits are made available to the low-income housing tenants.

**(b)** The managing general partner must maintain records and documents evidencing the duties performed by the managing general partner. Such records and documents may include, but are not limited to:

(1) accounting books and records;

(2) tax returns;

(3) budgets and financial reports;

(4) reports required by lenders;

(5) documents related to the construction or rehabilitation of real property;

(6) legal documents such as contracts, deeds, notes, leases, and deeds of trust;

(7) documents related to complying with government regulations and filings;

(8) documents related to property inspections;

(9) documents related to charitable services or benefits provided or the information provided regarding such services or benefits;

(10) reports prepared for the partners;

(11) bank account records;

(12) audited annual financial statement of the limited partnership; and

(13) property management agreement.

**(c) SUBSTITUTION OF MANAGING GENERAL PARTNER.** A limited partnership in which the managing general partner is an eligible nonprofit corporation or an eligible limited liability company that has qualified for the welfare exemption for low-income housing may allow a substitution of its managing general partner by another eligible nonprofit corporation or eligible limited liability company without affecting the organizational qualification for the welfare exemption provided that:

(1) the limited partnership agreement authorizes the withdrawal or removal of the managing general partner and the admission of a substitute managing general partner on the same effective date and such admission of the substituting managing general partner into the limited partnership is in compliance with the requirements of section 15641 of the Corporations Code; and

(2) the substitute managing general partner meets all of the requirements of a managing general partner set forth in subdivision (a)(6) above.

**(d) DELEGATION OF AUTHORITY CLAUSE.** If the limited partnership agreement contains a delegation of authority clause, such clause must provide either that:

(1) the managing general partner may not delegate any of its substantial management duties defined in (a)(10) above; or

(2) the managing general partner may delegate its substantial management duties, defined in (a)(10) above, to persons who, under its supervision, may perform such duties for the partnership subject to the supervision by the managing general partner. If the managing general partner elects to delegate one or more of its substantial management duties, the managing general partner must demonstrate that it is actually supervising the performance of the delegated duties.

**(e) CERTIFICATION REQUIREMENTS.** The limited partnership must file for and receive a supplemental clearance certificate from the Board as provided in Regulation 140.2.

**(f)** The provisions of this regulation shall apply prospectively to claims or applications for the welfare exemption under Revenue and Taxation Code section 214 and supplemental clearance certificates under Regulation 140.2, filed on or after the effective date of this regulation. For supplemental clearance certificates issued prior to the effective date of this regulation, claimants shall have until the January 1, 2007 lien date to be in compliance with this regulation unless the Board has issued a written notice of noncompliance. If the Board has issued such notice, claimant shall have 90 days from the date of the notice to comply with this regulation. Upon written request for an extension of time prior to the expiration of the 90-day period to comply, the Board shall grant a reasonable amount of time to comply with this regulation.

History: Adopted March 28, 2006, effective July 23, 2006.

## **Rule 140.2. REQUIREMENTS FOR SUPPLEMENTAL CLEARANCE CERTIFICATE FOR LIMITED PARTNERSHIP FOR WELFARE EXEMPTION FOR LOW-INCOME HOUSING PROPERTIES**

Authority Cited: Section 15606, Government Code.

Reference: Sections 214, 214.01, 254.5, and 254.6, Revenue and Taxation Code.

**(a)** A limited partnership in which the managing general partner is an eligible nonprofit corporation or eligible limited liability company, meeting the requirements of Regulation 140.1, that owns low-income housing property for which it will claim the welfare exemption shall file with the State Board of Equalization an application for a Supplemental Clearance Certificate for each low-income housing property.

**(b)** A Supplemental Clearance Certificate may be granted only if the managing general partner has already been granted an Organizational Clearance Certificate by the State Board of Equalization, as required under Revenue and Taxation Code section 254.6.

**(c)** In order to qualify for a Supplemental Clearance Certificate, the general partners of the limited partnership, including the managing general partner, must certify under penalty of perjury under the laws of the State of California, that:

(1) The acquisition, construction, rehabilitation, development, or operation of the property, or any combination of these factors, is financed with low-income housing tax credits or government financing, as defined in Regulation 140;

(2) There is an enforceable and verifiable regulatory agreement or recorded deed restriction, as defined in Regulation 140, that restricts all or a portion of the property's usage for rental to lower income households and the units designated for use by lower income households are continuously available to or occupied by lower income households at rents that do not exceed those prescribed by the terms of a regulatory agreement or recorded deed restriction, as defined in Regulation 140 or to the extent that none are provided in the regulatory agreement or recorded deed restriction, at rents that do not exceed those prescribed by section 50053 of the Health and Safety Code;

(3) Funds that would have been necessary to pay property taxes are used to maintain the affordability of, or reduce rents otherwise necessary for, the units to be occupied by lower income households;

(4) The managing general partner meets the requirements of Regulation 140.1; and

(5) All of the information provided as part of the application for the Supplemental Clearance Certificate, including any accompanying statements or documents, is true, correct, and complete to the best of the knowledge and belief of the person(s) signing the application.

**(d)** The following information and documents shall be provided in or with the application for a Supplemental Clearance Certificate:

(1) Legal name of the limited partnership;

(2) Legal name of the managing general partner of the limited partnership, its corporate identification number and mailing address, and the date that it became the managing general partner of the limited partnership

(3) Name, title, telephone number, and e-mail address of person signing the application for the Supplemental Clearance Certificate;

(4) The Organizational Clearance Certificate number and the date of issuance to the managing general partner. If an Organizational Clearance Certificate has not been issued to the managing general partner, an application for an Organizational Clearance Certificate must be filed by the managing general partner;

(5) Complete address of the property for which the limited partnership is seeking the welfare exemption, including the zip code, and the date the limited partnership acquired the property;

(6) Fiscal year for which the application is made;

(7) List of any additions or deletions of general partners in the limited partnership, if any, after its formation;

(8) For California limited partnerships, a copy of Secretary of State form LP-1, Certificate of Limited Partnership, and, if applicable, Secretary of State form LP-2, Amendment to Certificate of Limited Partnership; for foreign limited partnerships, a copy of the formation document, and, if applicable, amendment documents, filed in the state or country of formation;

(9) Copy of the regulatory agreement with a government agency, or a copy of a recorded deed restriction which verifies or evidences the receipt of low-income housing tax credits or government financing, as defined in Regulation 140; and

(10) Copy of the grant deed, or if the land is not owned by the limited partnership, documents evidencing the limited partnership's ownership of the improvements.

**(e)** The limited partnership shall include a copy of the Supplemental Clearance Certificate with its welfare exemption claim filed with the assessor of the county in which the property is located.

**(f)** In the event that the general partner designated in the limited partnership agreement no longer meets the definition of managing general partner, as defined in Regulation 140.1, or the managing general partner withdraws from the partnership, the limited partnership shall report such event to the State Board of Equalization and the assessor of the county in which in property

is located no later than the next succeeding annual filing deadline for the welfare exemption claim.

History: Adopted March 28, 2006, effective July 23, 2006.

**Rule 143. REQUIREMENTS FOR IRREVOCABLE DEDICATION CLAUSE AND DISSOLUTION CLAUSE FOR ORGANIZATIONAL CLEARANCE CERTIFICATE FOR WELFARE EXEMPTION**

Authority Cited: Section 15606, Government Code.

Reference: Sections 214, 214.01, 254.5, and 254.6, Revenue and Taxation Code.

**(a) DEFINITIONS.** For purposes of this regulation:

(1) "Dissolution clause" means a statement in the organizational documents of a qualifying organization that upon the liquidation, dissolution, or abandonment of the qualifying organization, the exempt property will not inure to the benefit of any private person except another qualifying organization.

(2) "Irrevocable dedication clause" means a statement in the organizational documents of a qualifying organization that the property is irrevocably dedicated exclusively to one or more qualifying purposes.

(3) "Organizational document" means the articles of incorporation of a corporation, or the articles of organization of a limited liability company, or the bylaws, articles of association, constitution or regulations of a community chest, fund, or foundation, or corporation chartered by an act of Congress.

(4) "Qualifying organization" means a community chest, fund, foundation, nonprofit corporation, or eligible limited liability company, organized and operated exclusively for religious, hospital, scientific, or charitable purposes. Charitable purposes include educational purposes as defined in Revenue and Taxation Code section 214, subdivision (j).

(5) "Qualifying purpose" means a religious, hospital, scientific or charitable purpose. Charitable purposes include educational purposes as defined in Revenue and Taxation Code section 214, subdivision (j).

**(b) IN GENERAL.** In order to qualify for the welfare exemption provided in Revenue and Taxation Code section 214, among other requirements specified therein, the property owned by a qualifying organization must be irrevocably dedicated exclusively to one or more qualifying purposes, and upon the liquidation, dissolution, or abandonment of the qualifying organization, the property will not inure to the benefit of any private person except another qualifying organization. In order to satisfy these requirements, the organizational document of the qualifying organization must contain both an irrevocable dedication clause, which meets the requirements set forth in subdivision (c) below, and a dissolution clause, which meets the requirements set forth in subdivision (d) below.

**(c) IRREVOCABLE DEDICATION CLAUSE.** Property is deemed to be irrevocably dedicated exclusively to one or more qualifying purposes provided that a qualifying organization's organizational document contains a statement that irrevocably dedicates its property exclusively to one or more qualifying purposes.

(1) If the organization's charitable purpose is educational purposes as defined in Revenue and Taxation Code section 214, subdivision (j), the irrevocable dedication clause shall state that the property is irrevocably dedicated to educational purposes as defined in section 214, or that the property is irrevocably dedicated to charitable and educational purposes meeting the requirements of Revenue and Taxation Code section 214.

(2) If the irrevocable dedication clause states that the property is dedicated to purposes other than the qualifying purposes, the property does not qualify for the welfare exemption.

(3) If the irrevocable dedication clause states that the property is irrevocably dedicated to a "public" or "public benefit" purpose, the property does not qualify for the welfare exemption.



(4) The following examples illustrate irrevocable dedication clauses as defined in subdivision (a)(2) above:

Example No. 1: The property owned by this organization is irrevocably dedicated to charitable, scientific, hospital, or religious purposes.

Example No. 2: The property owned by this organization is irrevocably dedicated to charitable and educational purposes meeting the requirements of Revenue and Taxation Code section 214.

Example No. 3: The property owned by this organization is irrevocably dedicated to educational purposes as defined in Revenue and Taxation Code section 214, subdivision (j).

Example No. 4: The property located in California owned by this organization is irrevocably dedicated to charitable, scientific, hospital, or religious purposes.

Example No. 5: The property owned by this organization is irrevocably dedicated to charitable purposes within the meaning of section 501 (c)(3) of the Internal Revenue Code.

Example No. 6: The property of this corporation is irrevocably dedicated to charitable purposes and no part of the net income or assets of this corporation shall ever inure to the benefit of any director, officer or member thereof or to the benefit of any private person.

**(d) DISSOLUTION CLAUSE.** In order to qualify for the welfare exemption, the qualifying organization's organizational document must contain a dissolution clause, which specifically states that its property will be distributed to another qualifying organization entity upon its liquidation, dissolution, or abandonment.

(1) If the dissolution clause in the organizational document designates a specific organization to receive the distribution, it must state that the designated organization is a qualifying organization that is organized and operated for a qualifying purpose.

(2) The dissolution clause of the qualifying organization may provide that, upon the liquidation, dissolution, or abandonment of the qualifying organization, the property will inure to the benefit of a governmental entity.

(3) The following examples illustrate dissolution clauses as defined in subdivision (a)(1) above:

Example No. 1: Upon the liquidation, dissolution or abandonment of this organization, its assets, remaining after payment or provision of payment of all debts and liabilities of this organization, shall be distributed to an organization organized and operated for a charitable, scientific, hospital, or religious purpose meeting the requirements of Revenue and Taxation Code section 214.

Example No 2: Upon the liquidation, dissolution or abandonment of this organization, the proceeds or assets related to property located in California, remaining after payment or provision of payment of all debts and liabilities of this organization, shall be distributed to an organization organized and operated for a charitable, scientific, hospital, or religious purpose meeting the requirements of Revenue and Taxation Code section 214.

Example No 3: Upon the liquidation, dissolution or abandonment of this organization, its assets, remaining after payment or provision of payment of all debts and liabilities of this organization, shall be distributed to an organization organized and operated exclusively for charitable and educational purposes meeting the requirements of Revenue and Taxation Code section 214.

Example No. 4: Upon the liquidation, dissolution or abandonment of this organization, its assets, remaining after payment or provision of payment of all debts and liabilities of this organization, shall be distributed to an organization organized and operated exclusively for educational purposes meeting the requirements of Revenue and Taxation Code section 214, subdivision (j).

Example No. 5: Upon the dissolution or winding up of the corporation, its assets remaining after payment, or provision for payment, of all debts and liabilities of this corporation shall be distributed to a nonprofit fund, foundation or corporation which is organized and operated exclusively for charitable purposes and which has established its tax exempt status under section 501 (c)(3) of the Internal Revenue Code.

Example No. 6: Upon the dissolution or winding up of the organization, its assets remaining after payment or provision of payment of all debts and liabilities of this organization, shall be distributed to a nonprofit organization which is organized and operated exclusively for charitable purposes.

**(e) FAILURE TO MEET REQUIREMENTS.**

(1) If, at the time of filing, the applicant's organizational document does not contain an irrevocable dedication clause and/or a dissolution clause which meets the requirements of subdivisions (c) and (d), respectively, the organization does not qualify for the Organizational Clearance Certificate under Revenue and Taxation Code section 254.6. However, the applicant may be issued an Organizational Clearance Certificate for the fiscal year for which the Organizational Clearance Certificate is requested on its application if the applicant amends its organizational document to meet the requirements of subdivisions (c) and (d) and submits a certified copy of the amendment to the State Board of Equalization by the next succeeding lien date.

(2) If, at the time of filing, applicant's organizational document did not contain an irrevocable dedication clause and/or a dissolution clause which meets the requirements of subdivisions (c) and (d), respectively, and the applicant amends its organizational document to meet the requirements of subdivisions (c) and (d) after the next succeeding lien date, an Organizational Clearance Certificate may be issued under Revenue and Taxation Code section 254.6 for the fiscal year following the lien date by which the applicant amends its organizational document and submits a certified copy of the amendment to the State Board of Equalization.

(3) If the applicant amends its organizational document, a certified copy of the amendments must be provided to the State Board of Equalization.

(4) The county assessor may not approve a welfare exemption claim until the State Board of Equalization has issued an Organizational Clearance Certificate under Revenue and Taxation Code section 254.6.

History: Adopted March 28, 2006, effective July 23, 2006.